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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000537

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [TW](#) [CH](#)
SUBJECT: TAIWAN OFFICIAL ON CROSS-STRAIT TALKS IN NANJING

REF: TAIPEI 511

TAIPEI 00000537 001.4 OF 003

Classified By: AIT Director Stephen M. Young, reasons 1.4 (b) and (d).

11. (C) Summary. On May 1, Vice Chairman Fu Don-cheng of Taiwan's Mainland Affairs Council (MAC), provided an overview of the April 25-26 talks between the Straits Exchange Foundation (SEF) and the PRC's Association for Relations Across the Taiwan Strait (ARATS). He characterized the aviation agreement as somewhat of a disappointment, but believed that the financial framework agreement would lead to MOUs on financial supervision. Fu noted, however, that market access issues for the financial sector will be difficult to negotiate. He expected new regulations facilitating Chinese investment soon, but not in sectors that China may be most interested in. When Taiwan raised ECFA, China pushed back saying Taiwan was still too internally divided over the issue. End Summary.

12. (C) During a May 1 meeting with AIT Econoff and visiting EAP/TC Deputy Director Deena Parker, MAC Vice Chairman Fu Don-cheng provided insight into the April 25-26 SEF-ARATS talks in Nanjing. Fu was part of the delegation that accompanied SEF Chairman P.K. Chiang to Nanjing (Reftel), and was present at all the meetings between the two delegations. SEF Chairman Chiang and ARATS Chairman Chen Yunlin signed agreements covering cross-strait passenger and cargo flights, judicial and law enforcement cooperation, and financial services. SEF and ARATS issued a joint statement on increasing PRC investment in Taiwan, and noted that both sides held general discussions about an Economic Cooperation Framework Agreement (ECFA).

Aviation Agreement a Disappointment

13. (C) Fu said Taiwan was disappointed with the aviation agreement, because although it increased the number of direct flights from 108 weekly round trips to 270, the Taiwan side had suggested raising the total to 500 flights to meet demand. (Note: While this is a dramatic increase from the current schedule, it is far less than the nearly 700 flights between Taiwan and Hong Kong per week. End Note) Taiwan also sought additional flights to Shanghai, where current

flights are running at capacity. The agreement calls for an increase from 20 to 28 flights per week to Shanghai, but Taiwan wanted more. China claimed that Shanghai's busy air-traffic control system could not handle additional flights. Currently all Shanghai-Taiwan flights operate out of Pudong Airport and are still denied access to the more convenient Hongqiao Airport. Cargo flights were expanded to 28 flights per week, up from 60 per month.

¶4. Fu acknowledged that upgrading most flights from charters to regularly scheduled flights was useful, since these flights would now be included in international ticketing and scheduling computer systems under IATA. When asked why only flights to Taoyuan and Kaoshiung airports are designated regularly scheduled flights, Fu explained that scheduled passenger flights are allowed to carry cargo in the hold, and only those two of Taiwan's airports have the facilities to handle this type of cargo. According to Fu, the Taiwan side wanted to negotiate Fifth Freedom Rights, but the PRC side was not willing to engage in such a discussion since, according to Fu, such discussions had possible implications of sovereignty.

Financial Services - An Agreement to Agree

¶5. (C) Rather than reaching specific memoranda of understanding on banking, insurance and securities supervision and regulation, both sides signed a general framework agreement on integration of financial services. Fu said this was because the PRC wanted to first sign a general agreement under the SEF-ARATS rubric to avoid the appearance of direct government-to-government negotiations (Note: Both SEF and ARATS are quasi-governmental bodies. End Note.)

TAIPEI 00000537 002.4 OF 003

According to Fu, now that the framework agreement is in place, the PRC agreed to allow their relevant agencies to deal directly with their Taiwan counterparts to negotiate the three MOUs. Fu said approximately 80 percent of the content of the MOUs has already been agreed on by both sides. Fu admitted that banking sector market access could be difficult to negotiate, due to the vast difference in size between Taiwan and Chinese banks. One Chinese bank, Fu noted, had assets larger than all of Taiwan's banks combined, and that there was worry that Taiwan banks could easily be dominated by Chinese banks. Fu stated that Taiwan hoped market access issues could be resolved in the course of finalizing the MOUs, rather than dealing with the issue later.

¶6. (C) Fu said in P.K. Chiang's meetings with Taiwan business people in China following the talks (Reftel China-based Taiwan business people told SEF and MAC officials that they were eager for both sides to reach agreement on financial market access issues. They believed a banking sector MOU will allow Taiwan banks to set up branches in China quickly, which would make it easier for these companies to obtain credit.

Joint Statement on Investment

¶7. (C) Separate from the framework agreement on financial services, both sides released a statement on Chinese investment in Taiwan. This is a statement rather than an agreement, because it refers to unilateral actions on the Taiwan side to open up to Chinese investment. Although Fu noted that this was a sensitive issue that will require consultations and consensus-building in Taiwan, he expected that sometime in June Taiwan would announce new regulations that would open about 30 percent of manufacturing categories and 25% of service sector categories to Chinese direct investment. China will also encourage its firms to visit Taiwan and invest here, he said. Fu noted that Taiwan already allows PRC investors into the real estate market, but so far little capital from the Mainland has been invested in

property development on the island. In Nanjing, China stated it was particularly interested in investing in Taiwan's high-tech industries such as semi-conductors, flat panels, chip packaging and testing. Fu did not envision these industries opening to Chinese investment anytime soon. He also expected that while China would be allowed and encouraged to invest in some of Taiwan's upcoming infrastructure projects, Chinese construction contractors would not be permitted to operate in Taiwan.

¶18. Noting the recent announcement that China Mobile has purchased a 12 percent stake in Far EastOne, Taiwan's third-largest mobile telecom provider, Fu said the subsequent rise in the Taiwan stock market shows that investors see significant potential in cross-Straits investment opportunities.

China - You're Not Ready for ECFA Talks

¶19. (C) Fu said the PRC was reluctant to hold substantive discussions on a possible ECFA during the talks in Nanjing or to formally add it to the agenda to the next round of talks. China was concerned, he said, that the issue was still controversial in Taiwan and wanted to avoid the noisy protests that had occurred during the last ARATS-SEF talks in Taipei last fall. Although both sides will continue to informally exchange views on a possible ECFA, Fu said that there was "less than a 30 percent chance" that ECFA would make it onto the agenda for the next round of talks later this year.

Next Round of SEF-ARATS Talks

¶10. (C) Fu expects that the next round of talks will occur in Taiwan sometime after municipal and county elections on December 5th, but before the end of the year. He said that

TAIPEI 00000537 003.4 OF 003

the following issues had been agreed on for the next round of talks: quarantine and inspection of agricultural products, harmonizing product, measurement and communications standards, cooperation on fisheries issues, and avoidance of double taxation. He noted that certain issues of particular concern to Taiwan investors in the PRC, such as protection of intellectual property and dispute resolution, could also be included in the agenda. Finally, Fu noted that cultural, educational and media exchanges may also be discussed informally in future SEF-ARATS talks. In closing, Fu paraphrased a statement by the head of the PRC's Taiwan Affairs Office that the cross-Straits situation is unique in that the more both sides negotiate, the more issues that seem to arise.

Comment

¶11. (C) As usual, Fu was forthright in sharing information as well as his personal assessment of cross-Straits relations. He characterized the latest round of SEF-ARATS talks as successful, despite some disappointments for Taiwan. However, he was candid in stating the progress in future rounds of talks will become more difficult, due as much to the complexity of the issues involved as to the political sensitivity surrounding them. Although Taiwan has also received other signals to the contrary, China's push back on ECFA during the Nanjing Talks, make it difficult for President Ma to get an ECFA with China anytime soon. End Comment.
YOUNG